

Message Text

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ACTION EB-07

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E.O. 11652: N/A
TAGS: ETRD,PINT, CE
SUBJECT: WAREHOUSE FIRE AGGRAVATES TEXTILE SHORTAGE

1. BEGIN UNCLASSIFIED. DURING NIGHT OF DECEMBER 20, MAJOR FIRE DESTROYED GOVERNMENT OWNED WAREHOUSE CONTAINING AN ESTIMATED RS. 21 MILLION (\$2.4 MILLION AT CURRENT OFFICIAL EXCHANGE RATE) WORTH OF TEXTILES AND SYNTHETIC YARNS. AS FIRE OCCURRED SAME DAY AS AUDITORS BEGAN FIRST INVENTORY IN SEVERAL YEARS, AUTHORITIES SUSPECT ARSON.

2. TOTALLY LOST IN FIRE WAS COUNTRY'S ENTIRE STOCK OF SYNTHETIC YARNS INTNEDED FOR DISTRIBUTION TO STATE AND PRIVATE SECTOR TEXTILE MILLS DURING FIRST QUARTER OF 1977. GSL IS URGENTLY PLACING NEW ORDERS BUT HAS CANCELLED INCREASE IN TEXTILE QUOTAS PLANNED FOR PRE-CHRISTMAS WEEK. INCREASE WOULD HAVE ALLOWED EACH RATION BOOK HOLDER (HOUSEHOLDS CAN COMBINE PURCHASES) TO BUY 0.8 YARDS OF MATERIAL RATHER THAN REGULAR MONTHLY QUOTA OF 0.6 YARDS.

3. FIRE HAS AGGRAVATED ALREADY SERIOUS SHORTAGE OF TEXTILES. SINCE 1971 GSL HAS STEADILY REDUCED QUANTITY OF TEXTILE IMPOAJS TO NANSEGZOHY REIGN EXCHANGE AND TO PROMOTE DOMESTIC PRODUCTION. IMPORTS OF TEXTILES AND CLOTHING
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FELL FROM RS.103 MILLION IN 1971 TO RS. WP MILLION IN 1975 (\$17.3 MILLION TO \$2.8 MILLION AT AVERAGE ANNUAL OFFICIAL EXCHANGE RATES). DOMESTIC PRODUCTION, HOWEVER, HAS NOT MADE UP FOR IMPORT DECLINE: ACCORDING TO CENTRAL BANK FIGURES,OUTPUT OF TEXTILES, WEARING APPAREL AND LEATHER INDUSTRIES IN CONSTANT 1970 PRICES

SLIPPED FROM RS.327.1 MILLION (\$55.0 MILLION) IN 1971 TO RS.297.2 MILLION (\$42.3 MILLION) IN 1975. RESULT HAS BEEN VERY SEVERE SHORTAGES, WITH CORRESPONDING INCREASE IN SMUGGLING AND BLACKMARKET ACTIVITIES. WHEN WORD GETS OUT THAT A GOVERNMENT CO-OPERATIVE STORE (CO-OPS HANDLE ALL LEGAL TEXTILE SALES) WILL HAVE TEXTILES FOR SALE, PEOPLE START LINING UP NIGHT BEFORE, AND WHEN STORE OPENS POLICE SOMETIMES HAVE DIFFICULTY MAINTAINING ORDER. BLACKMARKETEERS OFTEN HIRE PEOPLE WHO CANNOT AFFORD TO BUY TEXTILES TO STAND IN LINE AND GET THEIR RATION WHICH IS THEN RESOLD FOR SEVERAL TIMES CO-OP PRICE.

4. SHORTAGES HAVE BECOME POLITICAL ISSUE, AND FINANCE MINISTER FELIX BANDARANAIKE IN HIS PRE-ELECTION BUDGET SPEECH ON NOVEMBER 3 (SEE COLOMBO 4112) PROMISED INCREASED IMPORTS OF TEXTILES(SOME OF WHICH WILL COME FROM CHINA). AS INDICATED ABOVE, GSL HAD INTENDED TO BEGIN PROVIDING MORE TEXTILES BEFORE CHRISTMAS. ACCORDING TO PRESS REPORTS, HOWEVER, GSL WILL ISSUE 21 MILLION YARDS OF IMPORTED TEXTILES FOR SINHALA AND TAMIL NEW YEAR NEXT APRIL. END UNCLASSIFIED.

5. BEGIN LIMITED OFFICIAL USE COMMENT: ACCORDING TO PRELIMINARY FOREIGN EXCHANGE BUDGET FOR 1977 PROVIDED IN CONFIDENCE BY EXTERNAL RESOURCES DIVISION, GSL PLANS DRAMATIC INCREASE IN FOREIGN EXCHANGE ALLOCATION FOR TEXTILE SECTOR DURING PRE-ELECTION PERIOD. LATEST DATA FOR 1976 SHOW \$16.7 MILLION FOR IMPORTS OF RAW MATERIAL AND NOTHING FOR CAPITAL EQUIPMENT: 1977 ALLOCATION LIMITED OFFICIAL USE

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FOR RAW MATERIAL AND NEW LOOMS TOTALS \$79.1 MILLION.
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REED

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